GOVERNMENT ARTS COLLEGE (AUTONOMOUS), KARUR-05

PG AND RESEARCH DEPARTMENT OF COMMERCE

STUDY MATERIAL

SUBJECT	**: BUSINESS ORGANISATION**
CLASS	**: I.B.COM**
SEMESTER	**: I**

UNIT 1

SOLE TRADER AND PARTNERSHIP

I. SOLE TRADER:

Meaning

When a business unit is owned by a single person, it is called sole trader's concern. It is also known as one man's business. The person who does the business is called the sole trader or sole proprietor.

Definition

" A business carried on by single person exclusively by and form himself".

-Dr.O.R.Krishnaswami

FEATURES OF SOLE PROPRIETORSHIP

One Man Ownership

A sole trading concern is owned by an individual. The proprietor is the sole owner and master of the business.

Capital contribution

In sole trader ship, the capital is employed by the owner himself from his personal resources. He many also borrow capital from his friends, relatives and financial institutions.

Utilized Liability

The liability of the proprietor for the debts of the business is utilization.

Enjoyment of Entire profit

The sole trader is entitled to enjoy all profits of the business. Since he is the only person who invented money, he need not share the profit with anybody else.

No separate Legal Entity

The sole trader and the business are one and the same. A sole trading concern has no legal entity separate from its owner.

No Special Legislation

Sole tradership is not governed by any special legislation. A partnership firm is governed by the Indian partnership Act.

Registration

A sole trader business need not be registered with any authority. He is to obtain a license from the local authority like municipality or panchayat.

ADVANTAGES OF SOLE PROPRIETORSHIP:

1. Easy formation

It is very easy and simple to form a sole-proprietorship. No legal formalities are required to be observed for its formation. It is free from most of the government controls and regulations. So, it is easy to operate.

2. Full control

Proprietor exercises full control over the functioning and working of the business.

3. Quick decisions

The proprietor need not consult others while deciding the affairs of his concern. Business is dynamic in character. Changing market conditions demand quick decision and prompt action on the part of the proprietor.

4. Secrecy of business

The secrecy can be maintained about the business matters. He is able to take full advantage of any new ideas that may come to his mind. The sole proprietor need not publish his accounts thereby disclosing the profits to rivals.

5. Personal contacts

A sole trader knows the customers personally and he is able to cater to their individual tastes. It is easier for him to know the likes and dislikes of the customers, their habits, attitudes, grievances etc. He can thus adopt ways to satisfy his customers

6. Flexibility in operation

In this form of organization there is a great deal of flexibility in policy-making. The proprietor can change his business policies and introduce necessary changes in other business matters as the change of situation demands.

7. Direct motivation

There is a direct relation between the efforts and the rewards in the case of a sole trader. As the profits earned by a sole trading concern are not shared by any person other than the trader himself, he makes maximum efforts in order to earn maximum profits.

8. Social desirability

This kind of business organization develops among business people the qualities of self-reliance, responsibility, being tactful and initiative. These qualities develop the personality of the person.

DISADVANTAGES OR DEMERITS OF SOLE PROPRIETORSHIP:

1. Limited financial resources

The resources of a single individual, however rich he may be, are limited. He can obtain capital from his personal savings, or borrow on personal security. As his borrowing capacity is limited, he cannot raise unlimited amounts of money. Because of this, he cannot develop or expand his business beyond a certain limit.

2. Limited managerial skills

In modern business, knowledge and skills in various areas like production, finance, marketing, etc. are required. It is not possible for a single individual to possess expertise in all these areas.

3. Unlimited liability

The liability of the sole trader is unlimited. It means private property of the trader also is liable to pay off the business debts.

4. Lack of continuity/stability

Such form of organization suffers from lack of continuity/stability since the continuity and stability of the business depends solely on one person. The illness of the proprietor may cause temporary closure of business and the death of the proprietor may cause the permanent closure.

5. Limited restriction on growth

Due to the limitations of finance, managerial ability and uncertain life, the expansion of business is restricted. The size of business remains uneconomic or below the optimum level.

6. ***Weak bargaining power***

He has weak bargaining power both as a purchaser and seller as he buys and sells in small quantity.

II. **PARTNERSHIP**

Meaning

A **partnership** is a formal arrangement by two or more parties to manage and operate a business and share its profits. ... In particular, in a **partnership** business, all partners share liabilities and profits equally, while in others, partners have limited liability.

The persons who enter into partnership are individually called” Partners” and collectively known as “Firm”.

Definition

According to the section (4) of the Indian Partnership Act 1932, “Partnership is the relation between persons who have agreed to share the profits of a business carried, on by all or any of them acting for all”.

FEATURES OF PARTNERSHIP

The essential features and characteristics of a partnership are:

1. **Agreement**:
   The partnership arises out of an agreement between two or more persons.
2. **Profit sharing**:
   There should be an agreement among the partners to share the profits of the business.

3. **Lawful business**:

The business to be carried on by a partnership must always be lawful.

4. **Membership**:

There must be at least two persons to form a partnership. The maximum number is 20. But in case of banking business the maximum is 10 members.

5. **Unlimited liability**:

The liability of every partner is unlimited, joint and several.

6. **Principal-agent relationship**:

Every partner is an agent of the firm. He can act on behalf of the firm. He is responsible for his own acts and also for the acts done on behalf of the other partners.

7. **Collective management**:

The firm and the partners are one. When a contract is made in the name of the firm all the partners are responsible for it individually and collectively.

8. **Non-transferability of shares**:

A partner cannot transfer his share of interest to others without the consent of the other partners.

ADVANTAGES OF PARTNERSHIP

The following are the advantages of partnership business:

1. **Easy to form**:

A partnership firm can be formed without any legal formalities and expenses. Even if the firm is to be registered, the expenses are not much compared to company form of organization.

2. **Access to more capital**:

A firm consists of more than one person. Therefore, it can secure more capital from combined resources.

3. **Skill and talent**:

Talented persons may be taken as partners. More skill and talent will be available.

4. **Division of labor**:

Division of labor can be introduced which increases the efficiency in the management. One partner may take care of purchases, other sales and so on.

5. **Contact with customers**:

All the partners in a firm may take part in the management of the business. So, they get in touch with the customers during the course of the business. It enables them to study the tastes and needs of the customers.

6. **Borrowing capacity**:

The creditors will lend Loans not only on the basis of the firm's assets but also based on the personal properties of the partners. So, the borrowing capacity of a firm is more.

7. **Incentive to work hard**:

Every partner is liable for the debts of the firm. Also, every partner has a share in the profits. This makes them to work hard for the success of the business.

8. **Expansion of business**:

Due to the availability of sufficient finance and skill the business can be expanded very easily.

9. **Wise decisions**:

In partnership, decisions are taken with the consultation of all the partners. So naturally the decisions are wiser and more beneficial.

10. **Co-operation between partners**:

The partnership enables partners to provide mutual help to each other. Partners behave as members in a joint family.

11. **Flexibility**:

Changes in the business can be adopted easily. There are no legal restrictions.

12. **Economy in operation**:

If there is co-operation among the partners the firm can be run efficiently. A good number of economies in management can be derived.

13. **Division of risks**: All losses and risks of the business are shared by all the partners. So risky ventures can also be taken up.

14. **Maintenance of secrets**: Business secrets can be maintained easily if the number of partners in a firm are limited.

15. **Incidence of tax**: Compared with company form of organization the tax payable on the incomes of the partners will be less.

DISADVANTAGES OF PARTNERSHIP

The following are the disadvantages of a partnership firm:

1. **Division of responsibility**:

In a partnership the management is divided. As such responsibilities are also divided. Every partner might try to shift the burden on to the shoulders of others; finally, none takes the responsibility properly.

2. **Delay in decisions**:

Sometimes the partners may not agree with one another in taking decisions. As a result, partners will not be in a position to take quick decisions.

3. **Lack of continuity**:

A partnership gets dissolved on the death, insolvency, insanity or retirement of any partner. So, there is no guarantee for the continuity of the firm.

4. **No transferability of share**:

In a firm the partner cannot transfer his share of interest to others without the consent of the other partners.

5. **Lack of secrecy**:

It may not be possible to maintain secrecy in partnership because of the number of partners.

6. **Unlimited liability**:

The creditors of a firm can recover their loan amounts from the personal properties of the partners when the firm's sources are not enough. Therefore, the personal properties of the partners are not safe.

7. **Joint and several liabilities**:

Every partner is jointly and separately liable for the firm's debts. In case of insolvency of partners, the solvent partners have to pay the debts of the insolvent partners also.

8. **Internal conflicts**:

Differences and disputes among the partners are very common. These conflicts harm the firm as a whole.

9. **Misuse of assets**:

The partners may use the assets of the firm for their personal purposes. Misuse of assets is harmful to business interests.

10. **Lack of public confidence**:

A partnership firm is purely a private organization. It is not controlled or regulated by the Government. As such public may not have confidence in the firm.

SIMILARITIES BETWEEN SOLE TRADERSHIP AND PARTNERSHIP

Easy to form:

Sole proprietorships and partnerships are both easy and inexpensive to set up. These types of businesses are not separate legal entities

Flexibility:

Both the business can be altered if they are unsuccessful.

No permanent existence*:*

Both the business suffers from short life.

Unlimited Liability:

The liability of sole trader and partners are unlimited.

Size of business:

The size of both the business is smaller.

Government control:

Interference government is almost nil in both the business.

No compulsory Audit:

Audit of accounts is not compulsory for both.

Personal attention:

Sole traders and partners can give personal attention for running the business.

Direct touch with the customers:

Owners can have direct touch with the customers.

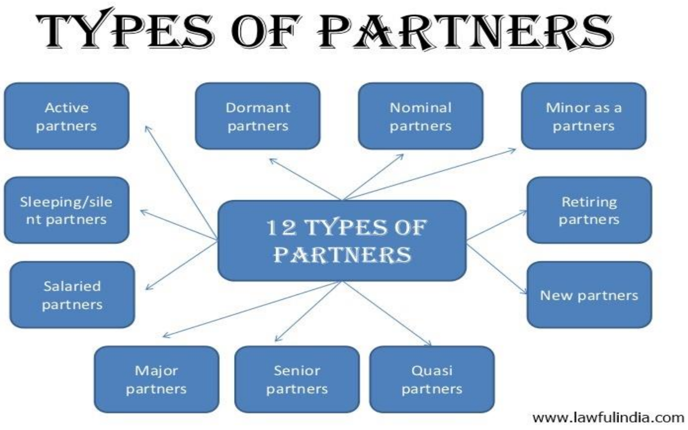
Person contact with employees:

Direct supervision employees are possible in both the business.

Registration:

Registration of the business is not compulsory for both.

TYPES OF PARTNERS



1. **General, Active or Working Partner:**
   This is the first type of partner in partnership business. The partner who provides capital and takes the active part in the conduct of business is known as a general or active partner.
2. **Inactive, Dormant or Sleeping Partner:**
   The partner who provides capital to the business and shares in the profit or loss of the firm but does not participate in the management is known as an inactive, dormant or sleeping partner.
3. **Nominal Partner:**
   A nominal partner is one who lends his name to the firm as a partner. Such partner does not invest any capital nor does he participate in management.
4. **Partner in Profit Only:**
   A person may become a partner for sharing profits only but he does not get a share in its loss.
5. **Limited Partner:**
   A limited partner is a partner whose liability is limited to his invested capital only.
6. **Secret Partner:**
   Some people become a partner but his membership is kept secret from outsiders. Such partner is known as a secret partner.
7. **Partner by Disposal or Holding Out:**
   When a person is not a partner but poses himself as a partner either by words or in writing, he is called a partner by disposal or holding out.

8. **Minor Partner:**

   A minor who is below 18 years of age is a type of partner who cannot enter into a contract according to the act.

9. **Retired or Outgoing Partner:**

   A partner is known as retired or outgoing partner when he leaves the firm but other partners continue to carry on the business.

10. **Incoming Partner:**

    A person who joins an existing firm with the consent of all the existing partners is known as a new or incoming partner.

11. **Quasi Partner:**

    A quasi-partner is one who is no longer a partner of business but has left his capital in the business as a loan. He receives interest on such as loan is not paid off.

KINDS OF PARTNERSHIP

- General Partnership (or) Unlimited Partnership
  - Partnership at will
  - Particular Partnership
  - Joint venture
- Limited Partnership

- ***General Partnership:*** A partnership in which the liability of all the partners is unlimited is known as unlimited Partnership.
  - *Partnership at will*: Partnership at will which is formed to carry on business without specifying any period of time. The life of such partnership continues as long as the partners are willing to continue.
  - *Particular Partnership:* It is a Partnership established for a stipulated period of time or for the completion of a specified venture.
  - *Joint venture:* A joint venture is a temporary partnership which is formed to complete a specific venture or job during specified period of time.

- ***Limited Partnership:*** A partnership in which the liability of the partner is limited is called limited partnership. A limited partnership firm must have at least one partner whose liability is unlimited.

DIFFERENCES BETWEEN SOLETRADER AND PARTNERSHIP

Basis of Differences	Sole Trader	Partnership
Specific Act	There is no Separate act for sole trader business.	The Partnership firm is governed by the Indian Partnership Act 1932.
Number of Members	Only one person	Minimum 2 maximum 10 for banking business and 20 for other business.
Agreement	No Agreement is necessary.	Agreement is essential which may be oral or in writing.
Registration	Need not be registered.	Optional
Ownership and control	Lies with the sole proprietor.	Lies with the Partners,
Management	This business is managed by one person only	All partners can participate in the management.
Capital	Sole trader contributes the entire capital.	All the partners contribute capital.
Secrecy	Secrecy can be maintained	Secrecy cannot be maintained as it is open to all the partners.
Economic strength	It is economically weak	It is economically more strong.
Survival	Its chance of survival is limited.	Its chance of survival is grater

UNIT II

JOINT STOCK COMPANIES

Meaning:

A joint stock company is an artificial person created by law with a fixed capital divisible into transferable, shares with prefectural succession and common seal. A company has a separate legal entity, it must be compulsory registered.

Definition:

"A Company means an association of persons united for a common object".

Justice james

SPECIAL FEATURES OF JOINT STOCK COMPANY

Incorporated Association

A company is required to be registered under the Companies Act 2013. Any association of persons that is not registered and subsequently incorporated with the Registrar of Companies is not recognized as a company at all.

Separate Legal Entity

A company in the eyes of the law is distinct (separate) from the people who constitute it. It is capable of enjoying rights is also subject to duties under the law. A company can also own and deal in property and other such assets.

Limited Liability

Since a company has its own legal identity, its members are not liable for its debts. The liability of the members of a company is limited to the unpaid share of their share value. There are some companies limited by guarantee, where the liability of each member is determined by such a guaranteed amount.

Transferability of Shares

The shares held by a shareholder of a company are transferable by nature. So the ownership in a company can be transferred in accordance with the manner provided in the Articles of Association. In a private company, there may be some restrictions placed on the transfer of shares.

Perpetual Existence

A company is an artificial person, so it does not have a restricted span of life. Death, insolvency, insanity, retirement etc. of any or even all of its members does not affect the status of a company.

Common Seal

Directors of a company are essentially its agents. So when a director acts within his powers a company is bound by his actions. The Common Seal is like a signature of the company. The directors use the seal to sign documents on behalf of the company. So until there is such a seal on the documents, they cannot be enforced.

ADVANTAGES:

The important advantages of company form of ownership are as follows

1. Limited Liability:

The liability of shareholders, unless and otherwise stated, is limited to the face value of shares held by them or guarantee given by them.

2. Perpetual Existence:

Deaths, insanity, insolvency of shareholders or directors do not affect the company’s existence. A company has a separate legal entity with perpetual succession.

3. Professional Management:

In company business, the management is in the hands of the directors who are elected by the shareholders and are well experienced persons. In order to manage the day-to-day activities, salaried professional managers are appointed. Thus, the company business offers professional management.

4. Expansion Potential:

As there is no limit to the maximum number of shareholders in a public limited company, expansion of business is easy by issuing new shares and debentures. Companies normally use their reserves for expansion purposes.

5. Transferability of Shares:

If the shareholders of a company are displeased with the progress of the business, they can sell their shares any time. During all this change of ownership, the business continues to operate.

6. Diffusion of Risk:

As the membership is very large, the whole business risk is divided among the several members of the company. This is an advantage particularly for small investors.

7. Economic of large-scale operation

A joint stock company can undertake business on large scale.

DISADVANTAGES OF COMPANY

1. Complicated for legal formalities:

The legal formalities to be complied with at the time of forming a company are complicated and difficult. Even after incorporation, it function is subject to severe restrictions.

2. Lack of Secrecy:

As per the legal provisions, a company has to make various statements available to the Registrar of the Companies, Financial Institutions; the secrecy of business comes down. It is further reduced when the company provides its annual report to the shareholders as the competitors do also find out the details of all financial data.

3. Management misuse

Sometimes the managers and directors misuse the company resources for their personal benefits. This brings losses to the company and company is closed.

4. Lack of Personal Interest:

Unlike proprietorship and partnership, the day-to-day affairs of a company are looked after by salaried managers. Since they are the employees not the owners, they do have hardly any personal interest and commitment in the company. This may result in inefficiency and, in turn, losses.

5. High Taxations

Joint stock companies have to pay tax at higher rates compared to other forms of organizations

KINDS /TYPES OF COMPANIES

1. Chartered Company:

Before the enactment of the Companies Act, a company would be formed by means of Royal Charter or Proclamation. That is, the promoters had to apply to the King through the parliament for necessary sanction and approval of the company. As such, these companies were called Chartered Companies and they were to use the word 'Chartered', e.g., the East India Company, the Bank of England etc.

2. Registered Company:

The companies which are registered and formed under the Companies Act, 1956, or were registered under any of the earlier Companies Act are called Registered Company. These are commonly found companies.

They were of three types:

(i) Company Limited by Shares [Sec. 12(2)(a)];

(ii) Company Limited by Guarantee [Sec. 12(2)(b)]; and

(iii) Unlimited Company [Sec. 12(2)(c)].

3. Statutory Company:

These companies are created by the Special Act of the legislature, e.g., the State Bank of India, the Life Insurance Corporation of India, the Reserve Bank of India, etc. These are actually concerned with public utility services, e.g., railways, gas and electric companies, etc. which require special powers to function.

4. Private Company:

According to Sec. 3(1)(iii) of the Indian Companies Act, 1956, a private company is one which, by its Articles**:**

(i) Restricts the rights to transfer its shares, if any;

(ii) Limits the number of the members to fifty not including

(a) Persons who are in the employment of the company, and

(b) Persons who, having been formerly in the employment of the company, were members of the company while in that employment, and have continued to be members after the employment ceases; and

(iii) Prohibits any invitation to the public to subscribe for any shares in or debentures of, the company.

5. Public Company:

Sec. 3(1)(iv) of the Indian Companies Act, 1956, states that public companies are **"all companies other than private companies."** It is a company of seven or more persons which offers its shares to the public for subscription. Since its shares are offered to the public, scope for investment by a large number of- people is possible.

Its Articles do not contain provisions restricting the number of its members or excluding generally the offer or transfer of shares or debentures to the public. Accordingly, any public who is interested to purchase shares or debentures may acquire the same. In this company, there is no maximum limit of members like private company.

6. Foreign Company:

The companies which are incorporated outside India but which had a place of business in India prior to commencement of the new Companies Act, 1956, and continue to have the same or which establishes' a place of business in India after the commencement of the Companies Act, 1956, is called a foreign company. These companies are registered in a country outside India and under the law of that country.

7. Government Company:

According to Sec. 617, a Government company is a company in which not less than 51% of the paid-up share capital is held by the Central Government and/or any State Government or partly by Central and partly by State Governments. The subsidiary of a Government company is also a Government company.

8. Holding and Subsidiary Company:

A holding company is one which controls one or more other companies—either by means of holding shares in that company or companies or by having powers to appoint directly or indirectly the whole or majority of the Board of Directors of those companies.

A company controlled by a holding company is known as a subsidiary company. Actually, it is a part and parcel of the combination movement in business.

DIFFERENCES BETWEEN PUBLIC COMPANY AND PRIVATE COMPANY:

BASIS FOR COMPARISON	PUBLIC COMPANY	PRIVATE COMPANY
Meaning	A public company is a company which is owned and traded publicly	A private company is a company which is owned and traded privately.
Minimum members	A Public company can be started by seven persons.	To constitute a private company two members are must.
Maximum members	There is no maximum limit of members.	The number of maximum members 200
Minimum Directors	A minimum of three directors must be there and the names and address of directors must be intimated.	A minimum of two directors must be there.
Suffix	Limited	Private Limited
Start of business	After receiving certificate of incorporation and certificate of commencement of business.	After receiving certificate of incorporation.
Statutory Meeting	A statuary meeting must be held within a prescribed period.	A private company is not required to call a statuary meeting.
Issue of prospectus	A public company must issue a prospectus.	A private company can not issue a prospectus.

BASIS FOR COMPARISON	PUBLIC COMPANY	PRIVATE COMPANY
Public subscription	Allowed	Not allowed
Quorum at AGM	5 members must present in person.	2 members must present in person.
Transfer of shares	Transfer of shares is freely allowed.	Transfer of shares is generally restricted

MEMORANDUM OF ASSOCIATION

Meaning:

A Memorandum of Association (MOA) is a legal document prepared in the formation and registration process of a limited liability company to define its relationship with shareholders.

The MOA is accessible to the public and describes the company's name, physical address of registered office, names of shareholders and the distribution of shares. The MOA and the Articles of Association serve as the constitution of the company**.**

NEED / IMPORTANCE OF MEMORANDUM OF ASSOCIATION

01. It is the basic and important document required for the formation of a company. No company can be registered with the memorandum of association.

02. Memorandum of association clearly defines the operations & functions of the company. This document has full control over the functioning of the company. It is termed as the charter of company & no company cab perform outside this document limits.

03. It is the medium through which all the stakeholders get full information regarding the company. It clearly gives an idea of the objectives & mission of the company.

04. It provides full detail regarding the promoters & managers of the company. It contains name, address of all-important persons associated with the business.

05. Memorandum of association helps in attracting more & more investors. Investors get a clear idea regarding the aims & objectives of the company.

It clearly defines the liabilities of each shareholder of the company. This helps in understanding the role & responsibilities of each person.

CONTENTS OF MEMORANDUM OF ASSOCIATION

According to the Companies Act, the Memorandum of Association of a company must contain the following clauses:

1. **Name Clause of Memorandum of Association**

The name of the company should be stated in this clause. A company is free to select any name it likes. But the name should not be identical or similar to that of a company already registered.

2. Situation Clause of Memorandum of Association

In this clause, the name of the State where the Company's registered office is located should be mentioned. Registered office means a place where the common seal, statutory books etc., of the company are kept .The company should intimate the location of registered office to the registrar within thirty days from the date of incorporation or commencement of business.

3. **Objects Clause of Memorandum of Association**

This clause specifies the objects for which the company is formed. It is difficult to alter the objects clause later on. Hence, it is necessary that the promoters should draft this clause carefully. This clause mentions all possible types of business in which a company may engage in future.

4. **Liability Clause of Memorandum of Association**

This clause states the liability of the members of the company. The liability may be limited by shares or by guarantee. This clause may be omitted in case of unlimited liability.

5**. Capital Clause of Memorandum of Association**

This clause mentions the maximum amount of capital that can be raised by the company. The division of capital into shares is also mentioned in this clause.

6. **Subscription Clause of Memorandum of Association**

It contains the names and addresses of the first subscribers. The subscribers to the Memorandum must take at least one share. The minimum number of members is two in case of a private company and seven in case of a public company.

ARTICLES OF ASSOCIATION

An article of Association is an important document of a Joint Stock Company. It contains the rules and regulations or bye-laws of the company. They are related to the internal working or management of the company. It plays a very important role in the affairs of a company. It deals with the rights of the members of the company between themselves.

CONTENTS OF ARTICLES OF ASSOCIATION

1. Classes of shares, their values and the rights attached to each of them.

2. Calls on shares, transfer of shares, forfeiture, conversion of shares and alteration of capital.

3. Directors, their appointment, powers, duties etc.

4. Meetings and minutes, notices etc.

5. Accounts and Audit

6. Appointment of and remuneration to Auditors.
7. Voting, poll, proxy etc.

8. Dividends and Reserves

9. Procedure for winding up.

10. Borrowing powers of Board of Directors and managers etc.

11. Minimum subscription.

12. Rules regarding use and custody of common seal.

13. Rules and regulations regarding conversion of fully paid shares into stock.

14. Lien on shares.

UNIT III

PUBLIC ENTERPRISES

MEANING:

A **Public Enterprise** is an industrial or commercial undertaking which the government owns and manages. Also, the primary objective of such an **Enterprise** is social welfare and upholding the interest of the general **Public**.

They operating in a wide range of industries including steel, minerals, metals, coal, petroleum, heavy engineering, fertilizer, chemicals, transport, electricity etc.,

DEFINITION

"Public enterprises are autonomous or semi-autonomous corporations and companies established, owned and controlled by the state and engaged in industrial and commercial activities**."** ***-N.N. Mallya***

CHARACTERISTICS OF PUBLIC ENTERPRISES:

i) Financed by Government:

Public enterprises are financed by the government. They are either owned by the government or majority shares are held by the government. In some undertakings private investments are also allowed but the dominant role is played by the government only.

(ii) Government Management:

Public enterprises are managed by the government. In some cases, government has started enterprises under its own departments.

(iii) Financial Independence:

Though investments in government undertakings are done by the government, they become financially independent. They are not dependent on the government for their day- to-day needs. These enterprises arrange and manage their own finances.

(iv) Public Services:

The primary aim of state enterprises is to provide service to the society. These enterprises are started with a service motive. A private entrepreneur will start a concern only if possibilities of earning profits exist but this is not the purpose of public enterprises.

(v) Useful for Various Sectors:

State enterprises do not serve a particular section of the society but they are useful for everybody. They serve all sectors of the economy.

(vi) Direct Channels for Using Foreign Money:

Most of the government to government aid is utilized through public enterprises. Financial and technical assistance received from industrially advanced countries is used in public enterprises.

(vii) Helpful in Implementing Government Plans:

Economic policies and plans of the government are implemented through public enterprises

FORMS OF PUBLIC ENTERPRISES

Public sector organizations are formed in three different forms:

1. Departmental undertakings
2. Public corporations/statutory corporations
3. Government company

1. ***Departmental Undertakings***

This is the oldest form of public sector enterprises. The departmental undertaking is considered as one of the departments of government. It has no separate existence than the government. It functions under the overall control of one ministry or department of government.

For example, Railways, post & telegraph, broadcasting, telephone service etc.

Features of Departmental undertakings: -

The main characteristics of departmental undertakings are: -

i. They operate under the overall control of one of the ministries of central or state government.
ii. They are a part of government only, there is no separate entity.
iii. The revenue of departmental undertakings is deposited in the treasury of government.
iv. They are financed from the annual budgets of the government.

Merits of Departmental undertakings:

- It is very easy to form a departmental undertaking as no registration is compulsory.
- There is direct parliamentary control. The performance of departmental undertakings can be discussed in parliament. So there is public accountability.
- The revenue of departmental undertaking is deposited in the treasury of the government. So, these undertakings help to increase the government revenue.

2. ***Public Corporation/Statutory Corporation***

A statutory corporation is a body corporate formed by a special act of parliament or by the central or state legislature. It is fully financed by the government. Its powers, objects, limitations etc. are also decided by the act of the legislature.

For example, Indian airlines, air India, state bank of India, life insurance corporation of India, food corporation of India, oil & natural gas corporation, etc.

Features of a Public corporation: -

The main characteristics of a public corporation are: -

- It is created by an act of parliament or central or state legislature.

- The powers, objectives & limitations of a public corporation are defined in the act only.
- Under total control of central or state government operations of public corporations takes place.
- A public corporation is a separate legal entity. It gets incorporated automatically when the act is passed in the parliament.

Merits of a Public corporation: -

- A public corporation is able to manage its affairs with independence & flexibility.
- A public corporation is relatively free from red tape, as there is less file work & less formality to be completed before taking decisions.
- The activities of the public corporation are discussed in parliament. This ensures the protection of public interest.

3. Government Companies

The company in which at least 51% of the paid-up share capital is held by the central or state government or partly by central or state government is Government Company. The government companies are governed & ruled by the provisions of the companies act, 2013 like any other registered companies. For example, steel authority of India, state trading corporation, Hindustan machine tools.

Features of Government Company: -

- Registration: The government company gets incorporated under the companies act, 1956. All the provisions of company's act are applicable to a government company.
- Ownership: The government company is wholly or partly owned by the government. The share capital of these companies is owned by the government of India in the name of the president.
- Management: The government is managed by the board of directors, who are nominated by the government & other shareholders. The government has the authority to appoint a majority of the directors.

Merits of Government Company: -

- The government company is relatively free from government & political interference.
- The government company is managed, financed & audited just as any other private sector company. It can, therefore, secure greater flexibility, freedom of operation & quickness of action in running the enterprise.
- The government companies can avail & accommodate managerial skill, technical know-how or expertise of the private enterprise of the private enterprise by conveniently collaborating with it.

PROBLEMS FACED BY PUBLIC ENTERPRISES

1. **Bureaucratic management**:

The organizations are run by bureaucrats who may not have knowledge of running an enterprise or knowledge of the industry trends and practices.

2. **Lack of autonomy**:

These enterprises lack freedom and flexibility. They are subject to the control of the politicians and bureaucrats. Due to this, their performance is affected.

3. **Delayed decisions**:

Decisions are delayed due to red-tapism and bureaucratic procedures. A file may have to pass through many officials for approval before a decision can be taken. By the time a decision is taken, the business environment might have undergone considerable changes.

4. **Unplanned production**:

Many of the public sector enterprises produce products which are not in tune with the market demand. The needs of consumers are not taken into account while planning production.

5. **No clear-cut price policy**:

There is no clear-cut price policy. Certain organization follow a cost-plus price policy, some administered pricing, a few dual pricings followed by those adopting association pricing. There is no clarity with regard to the price policy.

6. **Delays and cost overruns**:

Due to poor planning, lack of funds, mismanagement etc. many projects face delays and the consequent cost overruns. It is common to find new projects being announced without earlier projects being completed.

7. **High overheads**:

Many of these organizations incur high overheads. There is very little focus on cost control and cost reduction. Wastage of resources are rampant. Many organizations even maintain entire townships and incur high costs.

8. **Over-staffing**:

The salary costs and pension costs of many of these organizations are high. It is because government considers these organizations as generators of employment and many of them are overstaffed.

9. **Poor productivity**:

Due to reliance on outdated technology, lack of upgradation and inefficiencies, low levels of employee motivation and poor work culture, the productivity of many of these enterprises is quite low.

10. **Lack of proper planning**:

Planning is poor and, in some cases, even absent. Projects are commenced without detailed analysis and planning. This results in losses and delays.

11. **Low capacity utilization**:

Capacity utilization is very low because of inefficiencies in management, inefficiencies in processes and procedures and low employee efficiency.

12. **Poor profitability**:

The profitability of the enterprises is quite low due to several inefficiencies in the way in which they are managed. Many enterprises incur heavy losses and the government regularly infuses capital to run them.

13. **Poor labour management relations**:

The industrial climate in many of the enterprises is strained. This results in poor employee productivity. Unions are strong and strikes, go-slow tactics and agitations are common. This results in low morale and motivation levels and as a consequence, low output, poor quality of products and services are common.

14. **High employee turnover**:

There is no incentive for improved performance, very little freedom to implement innovative ideas and practices, promotions are based on seniority and not on performance, chance of work in new technologies is very less with salary levels very low when compared to the private sector. Therefore many talented employees leave the organization and the rate of employee turnover is high.

THEORY OF PRICING

The theory of price is an economic theory that states that the price for any specific good or service is based on the relationship between its supply and demand. The theory of price posits that the point at which the benefit gained from those who demand the entity meets the seller's marginal costs is the most optimal market price for that good or service.

Definition:

"**Pricing** is the method of determining the value a producer will get in the exchange of goods and services. Simply, pricing method is used to set the price of producer's offerings relevant to both the producer and the customer".

Factors affecting Price Determination:

- Internal factors
- External factors

01. **Internal factors**:

The management have substantial over such fact are which are which arises within the premises of business commonly known as internal factors, which are,

(01) Organizational setup
(02) Marketing mix
(03) Product cost
(04) Product differentiation
(05) Product objective
(06) Product life style

02. **External factors:**

(01) Estimating demand
(02) Influence of competition

(03) Economic climate

(04) Government pressure

(05) Suppliers

(06) Buyer behavior

Price determination for producers:

Based on cost

Based on competition

Based on demand

DIFFERENT KINDS OF PRICING

1**. Odd Pricing**

When the price of a product is an odd number, such a pricing method is known as odd pricing. Example: Conventionally, Some Shoe Company fix the price of shoes and chappals by the method of odd pricing, e.g., Rs.399.95 Ps. The reason for fixing the price as an odd number is quite obvious. Rs.399.95 Ps sounds better than Rs.400. An impression that the price is less is being created.

2**. Psychological Pricing**

When the price of a product is a round number, such a method of pricing is known as psychological pricing. For example, a product may be priced Rs.10 or Rs.15. Such a method is preferred by those marketers who do not believe in the technique of odd pricing.

3**. Price based on the prevailing or ruling price**

Such a method is followed by those marketers who want to fall in line with their competitors. They keep the same price as decided already by their rivals. Example: Manufacturers of cement follow a uniform price policy (Oligopoly market).

4. **Prestige Pricing**

This method is followed by those who deal in luxury goods. Such marketers, generally, keep the price of goods high for they think that customers will judge quality by the price. Example: Those who sell cosmetic items, leather goods, electronic items, etc., follow prestige pricing.

5. **Customary Prices**

By custom or convention, certain products are sold almost at the same price by different marketers. Example: Milk, butter, coffee powder, soft drinks, etc.

6. **FOB (Free on Board) Pricing**

Such a pricing has relevance when goods are to be transported to the buyer's place. In case of FOB origin, the transit charges will be borne by the buyer himself and in the case if FOB destination, he need not pay the transit charges.

7**. CIF (Cost, Insurance and Freight) Price**

In the case of CIF price quotation, the price paid by the buyer (may be an importer) includes cost, insurance and freight charges.

8. **Dual Pricing**

It refers to the practice of some marketers who quote two different prices for the same product, one may be for bulk buyers and one for small quantity buyers.

9. **Administered Pricing**

The price determined by a marketer based mainly on personal considerations is known as administered pricing. Factors like cost, demand and competition are ignored.

10. **Monopoly Pricing**

The price fixed by a marketer who has no competition in the market is known as monopoly pricing.

11. **Price Lining**

In this case, the price, once determined, remains unchanged for a fairly longer period of time.

12. **Expected Pricing**

The price fixed for a product based on the expectations of the consumers is known as expected pricing.

13**. Sealed Tender Pricing**

In case of contracts involving heavy outlay, e.g., construction contracts, sealed tenders will be invited from interested parties. The work is then assigned to the one who has quoted the minimum price.

UNIT IV

TRADE ASSOCIATIONS

Meaning

Trade associations are formed by businesses which are engaged in same or similar trade. They are organized on a non-profit basis. Trade associations are formed for the protection and promotion of business interests of its members.

Definition of Trade Associations

"A trade association is a voluntary organization of independent business units in the same branch of industry, which conducts co-operatively activities aimed at improving the welfare of the group, which does not deprive its members of the power to make essential managerial decisions."

Features of Trade associations

1. **Voluntary association**: It is a voluntary association of member units. Members are free to exit at any time.
2. **Non-profit motive**: Trade associations are non-profit earning associations. They are not promoted with a commercial motive.
3. **Name**: The associations are generally named after the nature of the trade or industry conducted by its members.
4. **Identity**: Members continue to retain their individual identity
5. **Independence**: Members units can remain completely independent. There is no interference by the association on the business affairs of its members.
6. **Objective**: The objective of trade associations is to promote the business interests of the members, exchange views, serve as a platform for discussions and to represent the interests of its members.

Functions of Trade associations

- ✓ Educating members so as to improve efficiency.
- ✓ Preventing cut-throat or unfair competition.
- ✓ Promoting and extending trade through 'legislative work'.

The following are the other functions of trade associations:

- To provide market information to members with regard to customer preferences, expectations, market opportunities etc.
- Providing information relating to emerging business opportunities. 3. Rendering advice on technical matters and legal issues.
- To secure co-operation and co-ordination among members.
- To serve as a forum where members can settle their disputes.
- Ensuring that members do not indulge in unfair trade practices.
- Providing references with regard to the reputation and credit worthiness of members.
- Undertaking advertisements to promote the industry.
- To prescribe code of ethics with a view to promote ethical behavior.
- To represent members grievances to the government and seek redressal.

TRADE UNION

Meaning: A trade union is an association of workers formed with the object of improving the conditions of workers. It is formed for protecting the interests of workers. Workers have little bargaining capacity when they are unorganized. In fact, trade union movement began against the exploitation of workers by certain managements under the capitalist system.

Definition: "A trade union is an association of employees designed primarily to maintain or improve the condition of employment of its members".

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Objectives of Trade Union:

- To improve the economic lot of workers by securing them better wages.
- To secure for workers better working conditions.
- To secure bonus for the workers from the profits of the enterprise/organization.
- To ensure stable employment for workers and resist the schemes of management which reduce employment opportunities.
- To provide legal assistance to workers in connection with disputes regarding work and payment of wages.
- To protect the jobs of labour against retrenchment and layoff etc.
- To ensure that workers get as per rules provident fund, pension and other benefits.
- To secure for the workers better safety and health welfare schemes.
- To secure workers participation in management.
- To inculcate discipline, self-respect and dignity among workers.
- To ensure opportunities for promotion and training.
- To secure organizational efficiency and high productivity.
- To generate a committed industrial work force for improving productivity of the system.

Functions of Trade Unions

- Collective bargaining with the management for securing better work environment for the workers/ employees.
- Providing security to the workers and keeping check over the hiring and firing of workers.

- Helping the management in redressal of grievances of workers at appropriate level.
- If any dispute/matter remains unsettled referring the matter for arbitration.
- To negotiate with management certain matters like hours of work, fringe benefits, wages and medical facilities and other welfare schemes.
- To develop cooperation with employers.
- To arouse public opinion in favour of labour/workers.

CHAMBER OF COMMERCE

A Chamber of Commerce is an association of merchants, financiers, manufacturers and others engaged in business in a particular locality or region for promoting the general commercial interests of all the members.

Chambers of commerce work to protect the interests of their members and foster the growth and development of commerce and industry of the respective regions in which they operate. They are formed to promote and protect general trade interests of all the members irrespective of the kind or class of trade they are engaged in.

Need for Chambers of Commerce

Chambers of commerce were formed out of the desire of business to have a body that would safeguard and promote their interests. The need for Chambers of Commerce arose due to:

Overwhelming influence of the government: The government exerts a great deal of influence on the way business is conducted through its various policies, rules and regulations. An individual businessman would not be able to oppose restrictive policies or recommend steps. Therefore, businessmen felt the need to have a body that would protect their collective interests and represent to the government their grievances and suggestions.

Tyranny of trade unions: Workers in various industries combined to form trade unions. The rise of communism in various parts of the world and emergence of the communist parties as a strong political force gave further impetus to the growth of the trade unions. Many businesses which had strong trade unions, began to suffer &om strikes, go-slow tactics, gheraos, work stoppages, damage to assets etc., Businesses, especially the textile mills in Mumbai and Ahmedabad were forced to close down unable to meet the unreasonable demands of the trade unions.

Functions of Chambers of Commerce

Chambers of Commerce performs a number of useful functions in promoting the interests of the business community. Some of the important functions are:

1. Performing the role of spokesman of the business community.

2. Collection and communication of information relevant to business and trade to members.

3. Making representations to government regarding any legislation which is detrimental to their interests. For example, Chambers of Commerce have made representations to the government regarding the Fringe Benefit Tax (FBT).

4. Making representation to the government regarding any proposed legislation. For example, Chambers of Commerce have made representations regarding the proposed Competition Commission.

5. Requesting the government for any new legislation to promote trade and commerce. For example Chambers of Commerce have been representing to the government the need for an exit policy (freedom to close down unviable businesses).

6. Requesting the government for changes in existing legislation. For example, Chambers of Commerce have been requesting the government to amend labour laws (making them more flexible) so as to enable them to hire and fire workers according to the business requirements.

7. To serve as a forum for settlement of disputes among members by means of Arbitration.

8. Maintenance of information and statistical bureaus in order to provide necessary information to its members.

9. Organizing industrial fairs and trade exhibitions to create awareness among buyers and promote members businesses.

10. Organizing lectures, seminars and workshops for the benefit of its members. For example, Chambers of Commerce conduct meetings and workshops after the Union Budget is presented to make members aware of the changes in tax provisions. Discussions with the Finance Minister may also be organized to enable members clear their doubts, air their grievances and make suggestions.

11. Providing support to members who are contesting elections for Legislative Assembly or Parliament.

12. Providing library facility for knowledge enhancement of members.

13. Running educational programs, conducting examinations and awarding diplomas to members.

Services of Chambers of Commerce

To the government

- The Chambers of commerce provide feedback to the government with regard to members opinions of government policies.
- It gives suggestions to the government to promote and safeguard interests of the business community.
- It provides inputs to the government for framing suitable economic policies.

To the members

- It serves as a forum where members can come together, discuss common problems, share information about best practices etc.,
- They can settle disputes that might arise between members.
- They can conduct research with regard to various sectors of the business and about the emerging market opportunities in India and abroad.
- They can conduct training programs to equip members with new skills and knowledge.

INTERNATIONAL CHAMBER OF COMMERCE

The **International Chamber of commerce :**It is the largest, most representative business organization in the world. Its over 45 million members in over 100 countries have interests spanning every sector of private enterprise.

ICC's current chairman is Ajaypal Singh Banga[3] and John W.H. Denton AO is the current Secretary General.

ICC has three main activities: rule setting, dispute resolution, and policy advocacy. Because its member companies and associations are themselves engaged in international business, ICC has unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in thousands of transactions every day and have become part of international trade.

A world network of national committees in over 100 countries advocates business priorities at national and regional level. More than 3,000 experts drawn from ICC's member companies feed their knowledge and experience into crafting the ICC stance on specific business issues.

UNIT-V

STOCK EXCHANGE

Meaning

A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. Here, the securities are bought and sold as per well-structured rules and regulations. Securities mentioned here includes debenture and share issued by a public company that is correctly listed at the stock exchange, debenture and bonds issued by the government bodies, municipal and public bodies.

Functions

1. **Role of an Economic Barometer:** Stock exchange serves as an economic barometer that is indicative of the state of the economy. It records all the major and minor changes in the share prices. It is rightly said to be the pulse of the economy which reflects the state of the economy.
2. **Valuation of Securities:** Stock market helps in the valuation of securities based on the factors of supply and demand. The securities offered by companies that are profitable and growth-oriented tend to be valued higher. Valuation of securities helps creditors, investors and government in performing their respective functions.
3. **Transactional Safety:** Transactional safety is ensured as the securities that are traded in the stock exchange are listed, and the listing of securities is done after verifying the company’s position. All companies listed have to adhere to the rules and regulations as laid out by the governing body.
4. **Contributor to Economic Growth:** Stock exchange offers a platform for trading of securities of the various companies. This process of trading involves continuous disinvestment and reinvestment, which offers opportunities for capital formation and subsequently, growth of the economy.
5. **Making the public aware of equity investment:** Stock exchange helps in providing information about investing in equity markets and by rolling out new issues to encourage people to invest in securities.

6. **Offers scope for speculation:** By permitting healthy speculation of the traded securities, the stock exchange ensures demand and supply of securities and liquidity.
7. **Facilitates liquidity:** The most important role of the stock exchange is in ensuring a ready platform for the sale and purchase of securities. This gives investors the confidence that the existing investments can be converted into cash, or in other words, stock exchange offers liquidity in terms of investment.
8. **Better Capital Allocation:** Profit-making companies will have their shares traded actively, and so such companies are able to raise fresh capital from the equity market. Stock market helps in better allocation of capital for the investors so that maximum profit can be earned.
9. **Encourages investment and savings:** Stock market serves as an important source of investment in various securities which offer greater returns. Investing in the stock market makes for a better investment option than gold and silver.

Features of Stock Exchange

- **A market for securities-** It is a wholesome market where securities of government, corporate companies, semi-government companies are bought and sold.
- **Second-hand securities-** It associates with bonds, shares that have already been announced by the company once previously.
- **Regulate trade in securities-** The exchange does not sell and buy bonds and shares on its own account. The broker or exchange members do the trade on the company's behalf.
- **Dealings only in registered securities-** Only listed securities recorded in the exchange office can be traded.
- **Transaction-** Only through authorised brokers and members the transaction for securities can be made.
- **Recognition-** It requires to be recognised by the central government.
- **Measuring device-** It develops and indicates the growth and security of a business in the index of a stock exchange.

- **Operates as per rules**– All the security dealings at the stock exchange are controlled by exchange rules and regulations and SEBI guidelines.

History of stock exchange

- The Indian stock market traces its history back to the late 18th century when the trading floor was under the shade of a sprawling banyan tree opposite the Town Hall in Mumbai. A few people would meet under this tree to informally trade in cotton. This was mainly due to the fact that Mumbai was a busy trading port and essential commodities were traded here often.
- The Companies Act was introduced in 1850 following which investors started showing an interest in corporate securities. The concept of limited liability also put in an appearance around this time.
- By 1875, an organization known as 'The Native Share and Stock Broker's Association' came into being. This was the predecessor of the BSE .
- In 1894, the Ahmedabad Stock Exchange came into being primarily with the objective of enabling dealing in the shares of textile mills in the city.
- The Calcutta Stock Exchange was formed in 1908 with the intention of facilitating a market for shares of plantations and jute millsIt was in 1920 that the Madras Stock Exchange took shape.
- In 1957, the BSE was the first stock exchange to be recognized by the Government of India under the Securities Contracts Regulation Act.
- The SENSEX was launched in 1986 followed by the BSE National Index in 1989.
- The Securities and Exchange Board of India (SEBI) was constituted in 1988 to monitor and regulate the securities industry and stock exchanges. In 1992 it became an autonomous body with completely independent powers.
- In 1992, the NSE was formed as the first demutualised electronic exchange in the country with the intention of ensuring transparency in the markets.
- NSE began operations in the Wholesale Debt Market (WDM) segment in 1994, the equities segment in 1994, and the derivatives segment in 2000.
- It was in 1995 that the BSE made the switch to an electronic system of trading from the open-floor system.

- In 2015, SEBI was merged with the Forward Markets Commission (FMC) with the aim of strengthening regulation of the commodities market, facilitating domestic and foreign institutional participation, and launch of new products.

Members of Stock Exchange

The brokers in a stock exchange act as a link between those who want to buy shares and those who want to sell the shares. A broker for this intermediary function is paid a commission called the brokerage. Brokers can appoint sub-brokers, who are not members of the exchange, to act on their behalf in various localities. Besides brokers, there are also jobbers in the secondary market. They are also called market makers in the exchange. They place both buy and sell orders for selected shares. Thus they give two quotations, the purchase price and the sale price, for the same share. Brokers are paid commission for this intermediary function. Bookers are paid commission for this intermediary function.

Foreign brokers:

ABN Amro Asia Equities (India) Ltd., Birla Sun Life Securities Ltd., Credit Suisse First Boston (India) Securities Pvt. Ltd. *Industrial groups:* Apollo Sindhoori Capital Investments Ltd., Cholamandalam Securities Ltd., Reliance Sharea and Stock Brokers Ltd.

Local bodies:

A Doshi Share and Stock Brokers Ltd., Abhipra Capital Ltd., Acme Shares and Stock Pvt. Ltd.

Subsidiaries of Indian Financial Institutions and Banks:

ICICI Brokerage Services Ltd., IDBI Capital Markets Services Ltd., SBI Capital Markets Ltd., UTI Securities Exchange Ltd.

Subsidiaries of stock exchanges:

Cochin Stockbrokers Ltd., LSE Securities Ltd., MSE Financial Services Ltd.

OVER THE COUNTER EXCHANGE OF INDIA

Over the Counter Exchange of India (OTCEI) can be defined as a stock exchange without a proper trading floor. All stock exchange have a specific place for trading their securities through counters. But the OTCEI is connected through a computer network and the transactions are taking place through computer operations. Thus, the development in information technology has given scope for starting this type of stock exchange.

Special features of OTCEI:

1. **Use of Modern technology:** Unlike other stock market, OTCEI does not have any special counters and it is an electronically operated stock exchange.
2. **Restrictions for other stocks:** Stocks and shares listed in other stock exchanges will not be listed in the OTCEI and similarly, stocks listed in OTCEI will not be listed in other stock exchanges.
3. **Minimum issued capital requirements:** Minimum issued equity capital should be Rs. 30 Lakhs, out of which minimum public offer should be Rs. 20 Lakhs.
4. **Restrictions for large companies:** No company with the issued equity share capital of more than Rs. 25 Crores is permitted for listing.

Base Capital requirement for members: Members will be required to maintain a minimum base capital of Rs. 4 Lakhs to trade on the permitted or on listed segment.

6. **All India Network:** The network of counters links OTCEI members, located in different parts of the country.
7. **Satellite facility**: The satellite required for OTCEI for its operations is jointly held with Press Trust of India (PTI) and hence, PTI-OTCEI scan displays the prices of OTCEI's scripts.

Constituents of OTCEI

OTCEI commenced its operations in 1992. In OTCEI, we have the following parties taking part in various transactions. They are

- Companies
- Dealers
- Members

- Investors
- Custodian or Settlers
- Transfer agents
- OTCEI
- Government and
- SEBI.

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

National Stock Exchange of India Limited (**NSE**) is the leading stock exchange of India, located in Mumbai, Maharashtra. NSE was established in 1992 as the first dematerialized electronic exchange in the country. NSE was the first exchange in the country to provide a modern, fully automated screen-based electronic trading system which offered easy trading facilities to investors spread across the length and breadth of the country.

Functions of NSE

The NSE was set-up with an express objective to fulfill the following functions:

- Establishing a nation-wide trading facility for equities, debt and other hybrid instruments
- Ensuring equal access to investors across the nation through an appropriate communication network
- Providing a fair, efficient and transparent securities market to investors using electronic trading systems
- Enabling shorter settlement cycles and book entry settlements systems, and
- Meeting the current international standards of securities markets

Features of National Stock Exchange

- NSE, like every other leading stock exchange today, runs an order-driven market as opposed to quote-driven market. The fully automated screen-based trading system that it runs is called **National Exchange for Automated Trading (NEAT)**.

- The **order management** system under NEAT gives a unique number to each order received and if a match is not found immediately, it is added to an order book where the sequence of orders to be matched are determined based on price-time priority. That is, if two orders are entered into the system, the order having the best price gets the higher priority and within the orders of the same price priority is given to the older order.

- **Order matching** is done by comparing the best buy order, the buy order with the highest price, with the best sell order, the sell order with the lowest price. This is because a seller would like to sell to the buyer offering the highest price and vice versa. While orders can be partially matched till the complete order can be completed, the matches are always made based on the passive price of the order and not the active price at which the match is made.